



Certified Public Accountants and Consultants

Members of American Institute of CPA's,
Private Companies Practice Section, Minnesota Society of CPA's

Alan L. Schafer, CPA
Kim A. Mahanna, CPA
Thomas H. Wente, CPA
Jean L. Guyse, CPA
William D. Frudden, CPA
Mark G. Paczosa, CPA
Dean L. Richards, CPA
Jason P. Boynton, CPA
Jason C. Miller, CPA

Kimberly A. Cada, CPA
Michelle L. Decker, CPA
Steve E. Erchul, CPA
James D. Heydon, CPA
Michael J. Malugani, CPA
Kerry T. Orton, CPA
Kelly A. Schwede, CPA

Retired:
Richard J. Smith, CPA

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Rochester, Minnesota

We have audited the accompanying basic financial statements of the City of Rochester, Minnesota as of and for the year ended December 31, 2002, as listed in the Financial Section of the Table of Contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the City of Rochester, Minnesota as of December 31, 2002, and the results of its activities, operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The City has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, and No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, for the year ended December 31, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2003 on our consideration of the City of Rochester, Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City taken as a whole. The combining and individual fund financial statements and schedules listed in the Financial Section of the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Rochester, Minnesota. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the Introductory and Statistical Section is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Rochester, Minnesota. This information has not been subjected to any audit procedures and, accordingly, we express no opinion on it.

Smith, Schaefer and Associates, Ltd.

Rochester, Minnesota
June 12, 2003